

CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

CanadaWest
FOUNDATION

VOL. 2011 | NO. 6

INCOME INEQUALITY

TAXING THE RICH

YOUTH POVERTY REDUCTION

Monthly Highlights

Energy Sector Keeps the Economy Moving

The Canadian economy grew by a relatively healthy 0.3% in August, its third consecutive month of expansion. While a good summer makes it unlikely that Canada will slip into recession in 2011, the national economy is by no means out of the woods.

GDP growth in August was entirely the result of a strong performance in the energy sector, which expanded by 2.8% that month. While this is good news for the western provinces, where most energy-related production takes place, it does not bode well for other parts of the country. Outside of the energy sector, the Canadian economy was flat in August.

As the spectre of debt crises in Europe continues to hang over global markets and, consequently, the outlook for the Canadian economy, there was additional bad news at home as Canada was hit by a sharp decline in full-time employment in October. BC was among the hardest-hit provinces, losing 10,800 jobs that month; unlike central and eastern Canada, however, most of BC's losses were in part-time work. On the Prairies, gains in part-time jobs were enough to offset lost full-time positions.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,289	2,126	529	626	17,346	October
% change from previous month	0.3	0.4	0.2	0.3	0.3	
Unemployment rate (%)	6.6	5.1	4.1	5.2	7.3	October
change in percentage points from previous month	-0.1	-0.3	-0.5	-0.3	0.2	
Participation rate (%)	64.6	74.1	68.7	69.0	66.7	October
Average weekly earnings (\$)	845.66	1,045.24	878.07	819.02	877.28	August
% change from previous month	1.9	1.8	1.2	1.1	0.8	
Inflation						
Consumer Price Index (% change from July 2010)	2.4	2.8	3.4	3.5	3.2	September
Economic Activity						
Retail trade (\$M)	4,918	5,288	1,351	1,371	37,776	August
% change from previous month	0.2	1.4	0.3	0.5	0.5	
Wholesale trade (\$M)	1,677	1,281	4,217	5,989	48,382	August
% change from previous month	-3.8	0.0	0.3	1.1	0.2	
Manufacturing sales (\$M)	3,170	5,794	1,063	1,255	47,629	August
% change from previous month	1.4	0.4	2.0	-2.4	1.4	

Unless otherwise noted, data are seasonally adjusted.
Source: Statistics Canada

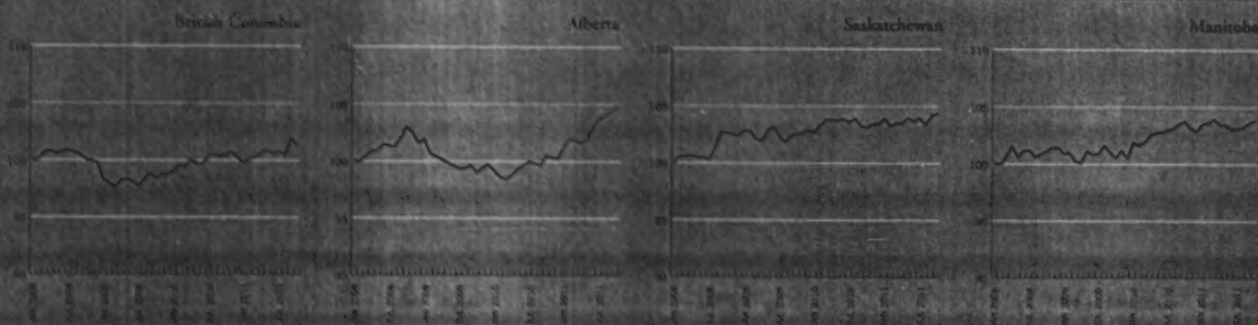
All four western provinces continued to enjoy strong income gains through the summer. Average weekly earnings through August were up by between 2.9% (BC) and 4.4% (Alberta) compared to a year earlier. By comparison weekly earnings grew by just 1.9% nationally over the same period.

CURRENTS is sponsored by:



CANADIAN
WESTERN BANK

EMPLOYMENT GROWTH (INDEX: JAN. 2008=100)



Monthly Feature

Income Inequality in Western Canada

The "Occupy" movement, which began in New York City and quickly spread across the US and Canada, has helped to bring the issue of income inequality to the forefront of public debate. Through slogans like "We are the 99%," protesters are voicing their dissatisfaction with the growing concentration of wealth in the hands of a few—the so-called 1%.

That income inequality has increased over the past 20 years, in Canada as well as in many other countries around the world, is not in dispute. Rising inequality has been a fact in western Canada as well. What is less clear is how inequality in the West today compares to other parts of the country and what factors have contributed to the increase in inequality over time.

Perhaps the most common way to measure income inequality is the Gini coefficient which calculates the extent to which actual income distribution in a given population deviates from perfect equality. A coefficient of 0 reflects a situation in which every individual is equally wealthy, while a coefficient of 1 indicates complete inequality (all wealth in the hands of a single person).

How the western provinces compare to other parts of Canada using this measure of inequality depends heavily on the type of income under consideration. Looking only at earnings from wages, investments and other non-government sources (market income), income inequality in the western provinces is slightly lower than most other parts of the country.

However, market income does not include government support payments like Employment Insurance, Old Age Security and social assistance, nor does it reflect the impact of progressive taxation on take-home pay. When these factors are considered, the story changes. The redistributive effect of government transfers and progressive taxation in BC and Alberta is lower than it is elsewhere in the country. As a result, BC and Alberta have the most unequal after-tax incomes in Canada.

In terms of the growth in income disparities in the West, all four provinces have higher levels of inequality today than they did 20 years ago. The income gap has widened the most in BC, with the degree of increase shrinking as you move eastward.

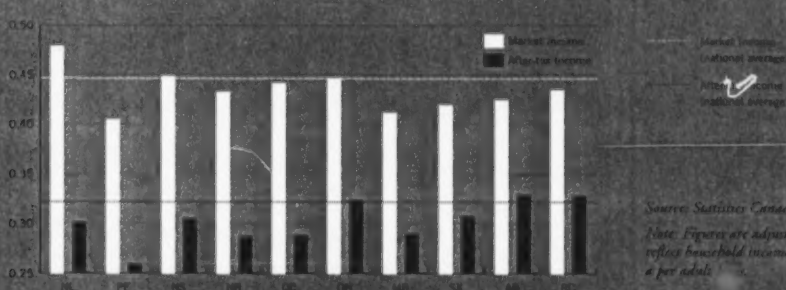
What's interesting to note, however, is that even though incomes are more unequal, the region's poor have not gotten poorer in recent years. In fact, after-tax, inflation-adjusted incomes for the bottom 20% of western Canadians have grown nearly as rapidly as incomes for the richest 20% over the past decade. As a result, incidences of low income in 2009, as calculated by Statistics Canada's after-tax Low Income Cut-Off (LICO) measure, are well below 1999 levels in all four western provinces.

What is evident in western Canada is that those who are neither rich nor poor—the middle 60%—are feeling the pinch. Income growth for the 60% in the middle has significantly lagged behind the richest 20% and the poorest 20% of western Canadians.

39.4%

Total growth in the real income of the poorest 20% of Albertans from 1999 to 2009.

INCOME INEQUALITY BY PROVINCE 2009 (Gini coefficient)



DID YOU KNOW?

To be considered in the top 20% of income earners, the average Albertan would have to have made more than \$70,000 in 2009. The corresponding figures for the other western provinces are \$58,900 in Saskatchewan, \$55,000 in BC and \$53,600 in Manitoba.

Four of Canada's five highest-income major cities are in the West. Calgary has the highest incomes of any major city in Canada, averaging \$50,100 in 2009. Residents of Regina had the second-highest average incomes that year, at \$45,800. Ottawa, Edmonton and Victoria rounded out the top five.

BC has the highest incidence of low income in the West; 12% of the province's residents were considered to be low income in 2009.

BEHIND THE NUMBERS

The richest 20% of western Canadians are growing richer, but their share of taxes is rising even more quickly.

Incomes for the region's wealthiest have risen considerably over the past decade, especially in Alberta and Saskatchewan, where the top 20% have seen their total inflation-adjusted incomes rise by 43% from 1999 to 2009 compared to an average of 31% growth for all other income earners. The same trend was evident in BC and Manitoba, although income growth was slower across the board.

However, because marginal tax rates rise with income level, total income taxes paid by the wealthy are growing even faster. In 1999, the top 20% of earners accounted for 40.7% of total pre-tax income in western Canada and paid 57.1% of total income taxes. By 2009, their share of total income had risen to 42.6%—an increase of 4.7%—at the same time, their share of total taxes paid rose to 60.9%—an increase of 6.6%.

16.7%

decrease in real average income tax paid in BC from 1999 to 2009.



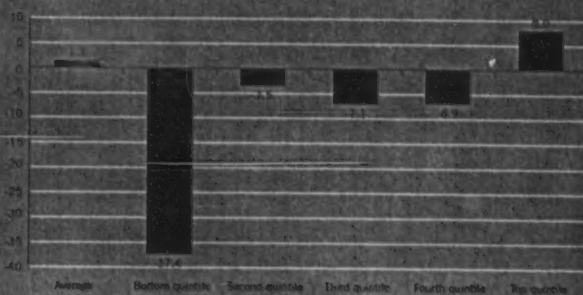
DISTRIBUTION OF TOTAL INCOME AND INCOME TAXES PAID BY QUINTILE 2009 (%)

	BC		AB		SK		MB		West	
	Income	Taxes	Income	Taxes	Income	Taxes	Income	Taxes	Income	Taxes
Bottom quintile	3.9	0.7	4.3	1.1	4.1	0.5	4.5	1.1	3.7	0.9
Second quintile	9.4	3.3	9.6	4.3	9.6	4.3	10.3	5.3	11.5	4.3
Third quintile	15.2	10.3	15.6	12.1	15.7	11.9	16.2	12.3	17.0	11.5
Fourth quintile	24.0	21.7	23.5	22.4	24.6	23.0	24.2	23.2	23.3	22.1
Top quintile	47.5	61.5	42.0	39.5	41.8	60.2	44.5	38.2	42.6	60.9

Source: Canada West Foundation, Statistics Canada

Note: Data refer to distribution of average pre-tax income earned, and taxes paid, by economic families.

GROWTH IN REAL INCOME TAXES PAID BY QUINTILE IN WESTERN CANADA 1999-2009 (%)



Source: Canada West Foundation calculations using Statistics Canada data

Note: Data refer to income taxes paid by economic families.

Energy Focus: British Columbia

City of Kitimat

Kitimat, a city of about 9,000 people on the coast of British Columbia, is turning into an important terminal for Liquefied Natural Gas (LNG) exports as western Canadian gas producers seek export opportunities in potentially lucrative Asia Pacific markets.

In October 2011, Shell—a major player in shale gas development in northern BC—announced that it had purchased sites in Kitimat formerly owned by Cenovus. It is speculated that Shell will build a LNG facility and terminal, pending approval by the National Energy Board (NEB).

Shell's speculated project is in addition to two others currently in the works. The first—a pipeline and LNG facility—is managed by a partnership between Apache, Encana and EOG Resources. Recently granted a license by the NEB, the first exports are projected to begin in 2015. The second, the BC LNG Export Co-operative LLC, is a partnership between the Haisla First Nation and a small Texas-based company.

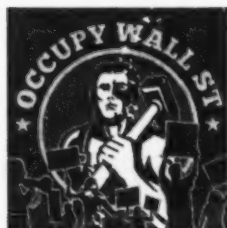
Kitimat, British Columbia



OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

Forget the Rich and Focus on the (Young and) Poor



The protests across North America born of the Occupy Wall Street movement have drawn attention to a number of percolating social issues, including concerns over poverty, income distribution, corporatism and social inequality. The fact that these protests have garnered sympathetic responses from high-profile Canadians such as

the Governor of the Bank of Canada and the federal Finance Minister suggest that they have hit a nerve among policy leaders as well as in the broader community.

However, to the extent that Occupy protests are able to act as a catalyst for positive change in addressing issues of poverty and income inequality in Canada, we need to make sure that we are aiming at the right target. The first thing to note in that regard is that the proposed solution to most of the social ills identified by protesters ("tax the rich") is too facile. The ultra rich are highly mobile. Unless it is coordinated with similar efforts in other countries, anything more than a modest shift in the tax burden would likely trigger a flight of wealth out of the country. This would be entirely counterproductive; our governments already rely on the richest 20% of Canadians to supply a full 62.1% of income tax revenue.

Penalizing the rich (or driving them out of the country) is certainly one way to reduce income disparities, but a far more effective policy solution would be to concentrate on the other side of the equation: reducing poverty.

Efforts to do so are somewhat hampered by the fact that we can't really agree on what we're measuring; Canada does not have an official poverty measure in the strictest sense. Instead, Statistics Canada publishes several "low income" measures that, broadly speaking, count the number of people who have to spend an unacceptably high proportion of their total income on basic necessities or some other basket of goods. What counts as "unacceptable" is open to interpretation.

Using these low income indicators as a proxy, we find that substantial progress has been made in addressing poverty among one specific group—seniors. The proportion of seniors living below Statistics Canada's after-tax low-income cut-off (LICO)—the most commonly-used measure of low income—fell from 26.1% in 1979 to 5.2% in 2009. Seniors now have the smallest incidence of low income of any age cohort.

Similar improvements are needed for other population cohorts. In 1989, the House of Commons unanimously passed a resolution to end child poverty in Canada. More than 20 years later, progress on that front has been modest. While the proportion of the under-18 population living under the LICO threshold has fallen somewhat since the mid-1990s, reaching 9.5% in 2009, it remains well above the rate for seniors. A particular challenge will be to reduce low income among children of single mothers, where more than one in five continues to live below the LICO threshold.

In spite of the large gap between incidences of low income for seniors and those for youth, governments have had a hard time switching gears to focus their policy efforts on the latter group. Indeed, in the most recent federal election, all three major national political parties pledged to eliminate (or dramatically reduce) poverty among seniors by increasing support payments under the federal Guaranteed Income Supplement (GIS). Pledges were also made to address family and child poverty, but all were considerably vaguer and most were boilerplate solutions, the likes of which are trotted out every time an election rolls around.

The best policy option for reducing poverty among youth and young adults is to create strong conditions for economic growth and job creation. Unfortunately, the outlook on that front is far from positive for those entering the workforce. Looming government fiscal austerity; rising health care costs for an aging population; high housing prices; and huge student loans—university student debt has doubled in real-dollar terms since 1990—all point to greater challenges and less public support for the next generation of workers. Small wonder there are protests.

CURRENTS is published bi-monthly by the Canada West Foundation. The information contained in this report has been drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it does the Canada West Foundation assume any responsibility or liability. Notwithstanding the fact that effort has been made to ensure the accuracy of the information and forecasts contained herein, this report's content should not be construed as financial advice.



CURRENTS is sponsored by Canadian Western Bank. Canadian Western Bank is the largest Schedule I chartered bank with headquarters and principal operations in western Canada.

Visit www.cwbank.com